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**HF 569** – Retirement Savings Plan Option (LSB2200HV)

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Fiscal Note Version – New

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**Description**

[House File 569](#) concerns authorized investment vehicles in a tax-sheltered investment program established by the Department of Administrative Services (DAS).

**Background**

- The DAS began administering the 403b plan on January 1, 2010. The 403b plan primarily serves K-12, Area Education Agency (AEA), and community college employees.
- School districts have the option to offer 403b programs to their employees. When offering a 403b plan, employers may choose to utilize the core providers and/or the optional providers.
- There are currently 332 employers (school districts, AEAs, and community colleges) participating in the State's Retirement Investment Club 403b program, of which 19 districts utilize both core and optional providers for their employees. The remaining 313 employers use the core providers.
- The 403b plan currently has two tiers:
  - The four "core" providers include Horace Mann, Mass Mutual, VALIC, and VOYA. These providers have specific requirements, such as limitations on fees, that plan offerings must meet the State of Iowa Retirement Investment Club (RIC) investment policy and are reviewed annually, and that no surrender or transfer penalties or restrictions are allowed. A request for proposal (RFP) is issued every six years for the core providers. The State is in the second year of a two-year contract period with four one-year extensions available.
  - The five "optional" providers include Annuity Investors LIC, EFS Advisors, AXA Equitable, Lincoln Investment, and Security Benefit. These providers do not have the same restrictions as the core providers. Optional providers are currently required to enter into an agreement with DAS to permit plan sponsor access, allowing DAS to provide electronic submission/approval or contributor loans against investments and/or hardship distributions. Optional providers must also enter into an agreement with the third-party administrators utilizing common remitter and "planwithease" products. Optional providers are selected through an invitation to qualify (ITQ) that is on the same cycle as the RFP for the core providers.
- The common remitter for DAS is VOYA. A common remitter allows employers the ability to remit contributions to investment providers through a single distribution provider. Using a single distribution provider eliminates the need to transmit contributions to each individual employee's investment provider.
- Prior to centralizing the 403b program under DAS, school districts had to issue monthly checks/warrants to an average of 10 to 20 providers.
- The 332 employers in the 403b program currently pay an annual fee of \$400 per employer to DAS to support the administrative costs of the program. This pays for 1.10 FTE positions in DAS with a total cost of approximately \$136,000, which includes one full-time Human Resources Professional 1 and a part-time (0.10 FTE) Executive Officer 4.

### **Assumptions**

- The number of additional investment providers is not limited under the Bill.
- If the providers are not required to use a “planwithease” third-party administrator and do not provide DAS with plan sponsor access, DAS will require additional staff to accommodate the increased interactions with investors and investment providers.
- The DAS would add 1.90 FTE positions that would include a full-time Human Resources Professional 1 and a part-time Executive Officer 4.
- The annual participation fee for the 332 employers would increase from \$400/employer/year to \$1,015/employer/year.
- The Bill does not mention the use of a common remitter. By not using a common remitter, the costs for transferring funds monthly to employees’ individual investment providers would fall on DAS and/or school districts.

### **Fiscal Impact**

House File 569 may result in an annual fee increase of approximately \$615 per employer that participates in the 403b plan program. The fee will fund 1.90 FTE positions in DAS, totaling approximately \$200,000. In addition, if DAS and/or the school districts, AEAs, and community colleges are responsible for remitting monthly contributions to investment providers, it will result in increased costs; however, the impact is unable to be determined at this time.

### **Source**

Department of Administrative Services

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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